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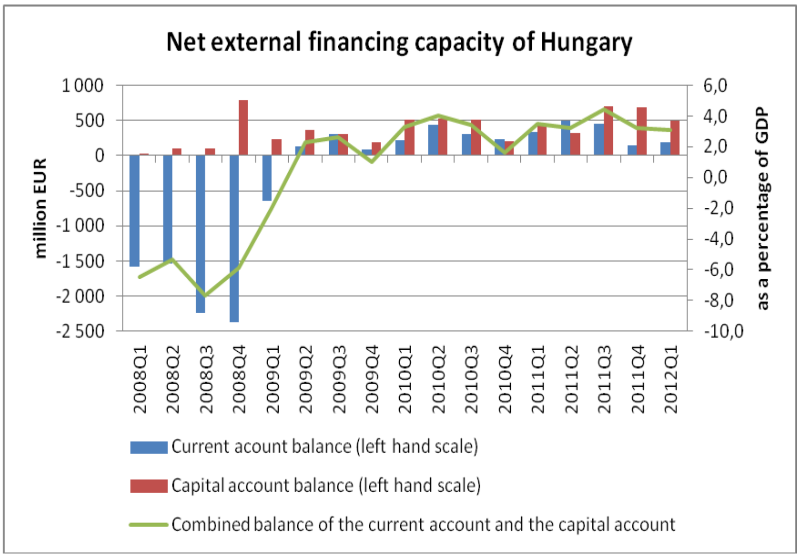
Improving net external financing capacity of the Hungarian economy

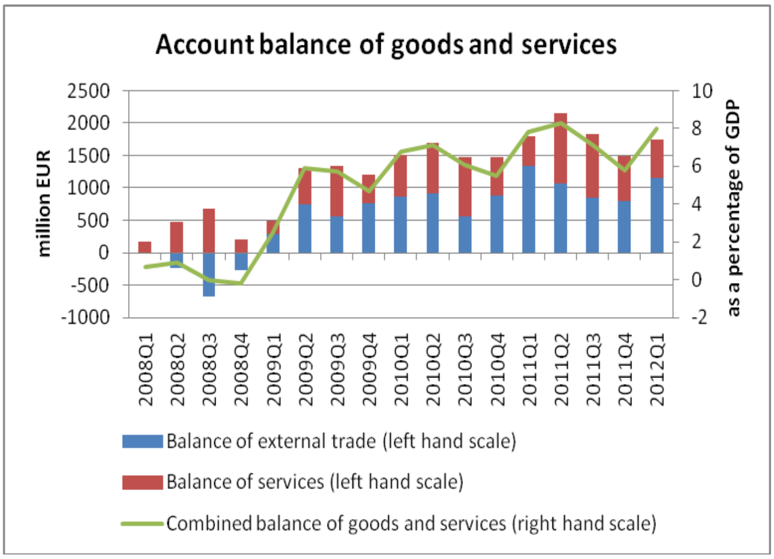
Net external financing capacity of Hungary has steadily and significantly improved in the past couple of years. The same applies to the first quarter of 2012, when the combined surpluses of the current account and the capital account amounted to 3.1 percent of GDP. The current account surplus of the country was the consequence of the continued positive balance of real economy transactions, and the capital account – due primarily to the inflow of European Union resources -- has also recorded a significant surplus.

The **net external financing capacity of Hungary** – i.e. the combined surplus of the current account and the capital account – totaled 672 million EUR in the first quarter of 2012 which corresponds to 3.1 percent of GDP. Similarly to the results in the past couple of years, in the initial three months of this year the current account registered a substantial surplus which amounted to 0.8 percent of GDP. This figure was a further improvement compared to the reading of 0.5 percent in the previous quarter. Capital account surplus (the balance of current transfers and non-real, non-financial instruments) was even higher than that of the current account at 2.2 percent of GDP in Q1 2012.



Source: Eurostat

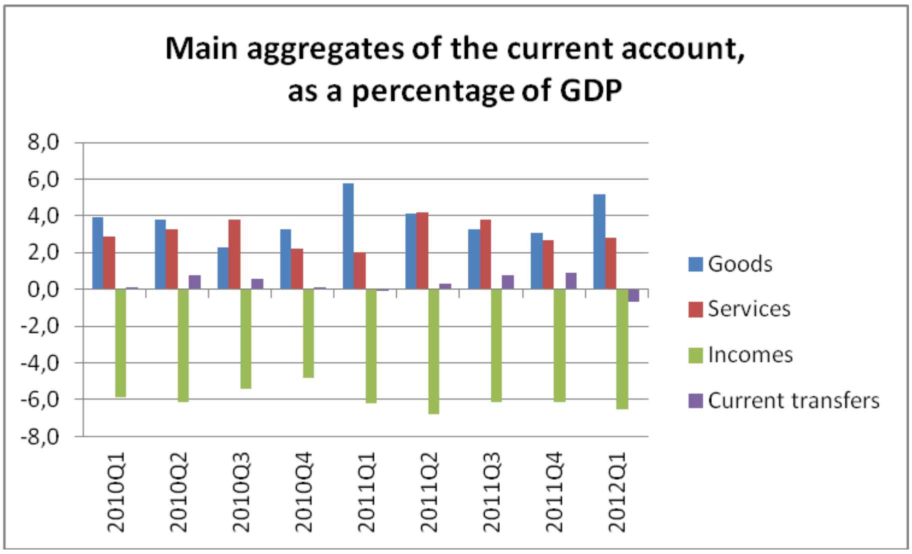
From 2009 on the real economy transactions account has recorded significant surpluses, and the size of surpluses has been gradually growing. Since the onset of the global economic crisis as a dual impact of increasing export and decreasing import demand the trade balance of both goods and services has been constantly in the black, and the surplus amounted to 1 712 million EUR in the first quarter of 2012. Balance of external trade in the January-March 2012 period improved greatly compared to the previous three months: the surplus increased from 3.1 percent to 5.2 percent of gross domestic product. The services account has also recorded a significant surplus and totaled 2.8 percent of GDP in the first quarter of this year.



Source: Eurostat

The surplus on goods and services has counterbalanced the deficit on incomes and investments for years, therefore the current account registered a surplus in Q1 2012 as well. The incomes account recorded a deficit of 1 421 million EUR, from which the largest negative component was the amount of investments in general and direct capital investment flow in particular (-1 048 million EUR).

MINISTRY
FOR NATIONAL ECONOMY

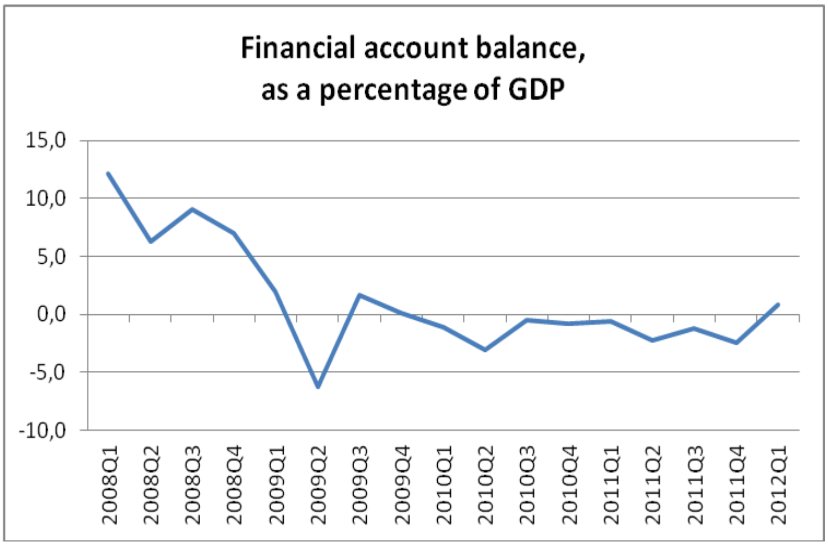


Source: Eurostat

The capital account of Hungary has been recording increasing surpluses ever since the EU accession. The capital account surplus was 491 million EUR in the first quarter of 2012 which corresponds to 2.2 percent of GDP. Transfers from the European Union have greatly contributed to increasing capital account surpluses. According to data of the National Bank of Hungary (MNB) these amounted to 544 million EUR in Q1 2012.

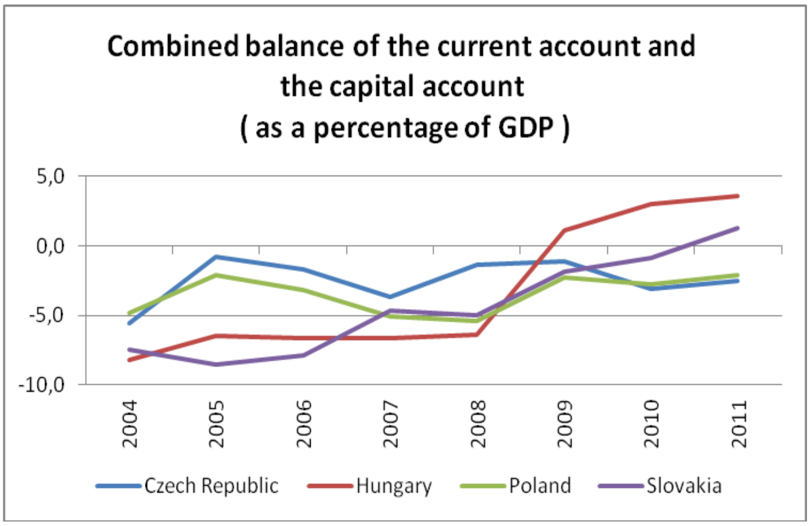
From 2008 on, parallel to improving current account balance the financial account surplus of Hungary has gradually declined and totaled 174 million EUR in Q1 2012 or 0.8 percent of GDP. In Q4 2011 and Q1 2012 the amount of direct capital investments has significantly increased in the financial account, due both to external investments by Hungarian companies and domestic investments of foreign enterprises. A substantial share of these, however, is attributable to the phenomenon of capital transit: Hungarian branches of foreign holding companies receive capital or loan from another member of the holding company which they transfer within a short period of time to one of the foreign enterprises of the parent company, without having spent it on Hungarian developments or investments. In the observed period this phenomenon was not only typical of special purpose entities, but a highly widespread business practice among traditional companies as well.

MINISTRY
FOR NATIONAL ECONOMY



Source: Eurostat

On the basis of a long term comparison with the Visegrád countries it can be concluded that the **net external financing capacity of Hungary significantly surpassed in the past three years the corresponding indicators from Poland, Slovakia and the Czech Republic.**



Source: Eurostat

Regarding Poland and the Czech Republic, the combined account of the current account and the capital account registered deficits in the past couple of years. In Poland the account of goods and services as well as that of incomes were constantly in the red, whereas in the Czech Republic the combined surplus of goods and services accounts could not offset the deficit of the income account. During the crisis in the economy of Slovakia trends similar to those in Hungary have developed, in the period since 2008 the current account recorded declining deficits and after that increasing surpluses. **In the year of 2011 the current account of Hungary recorded a surplus of 1.4 percent as of GDP which substiantially outperforms the figures of -2.9 percent, -4.3 percent and 0.1 percent, respectively, for the Czech Republic, Poland and Slovakia.** Since the EU accession capital account balances have improved greatly in all four of Visegrád countries, due mostly to EU transfers.

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Ministry for National Economy